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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

SEP -1 2010

KRISTIN K. MAYES - Chairman
 GARY PIERCE
 PAUL NEWMAN
 SANDRA D. KENNEDY
 BOB STUMP

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
 GRANITE MOUNTAIN WATER COMPANY,
 INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02467A-09-0333

IN THE MATTER OF THE APPLICATION OF
 GRANITE MOUNTAIN WATER COMPANY,
 INC. FOR APPROVAL OF FINANCINGS.

DOCKET NO. W-02467A-09-0334

DECISION NO. 71869ORDER

Open Meeting
 August 24 and 25, 2010
 Phoenix, Arizona

BY THE COMMISSION:

This case involves an application for a permanent rate increase and an application for approval of financings, both filed with the Arizona Corporation Commission ("Commission") on June 30, 2009, by Granite Mountain Water Company, Inc. ("GMWC"), a Class D water utility providing service to approximately 101 customers in a service area located approximately three miles north of Prescott, in Yavapai County. GMWC's rate application uses a test year ("TY") of calendar year 2008. GMWC's current rates were approved in Decision No. 58869 (November 30, 1994). GMWC's financing application requests retroactive approval of a \$125,000 line of credit obtained in 2009 and of three loans, totaling \$132,793.65, which were obtained in January 2004, March 2006, and April 2007.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

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...

FINDINGS OF FACT**General Background**

1. GMWC is a Class D public service corporation providing water utility service to approximately 101 customers in a service area located approximately three miles north of Prescott in Yavapai County. GMWC's service area is approximately three-quarters of a square mile in size.

2. GMWC is an S corporation owned by Paul D. Levie ("PD Levie") and Rae Levie, husband and wife, who are also owners of Chino Meadows II Water Company ("Chino Meadows"), another public service corporation, as well as several additional business ventures.¹

3. GMWC's water system currently has two active wells (Well No. 3 and Well No. 4) that yield a combined 82 gallons per minute ("GPM"); three inactive wells; one 19,000-gallon storage tank; and a distribution system serving approximately 101 meters and three standard hydrants. GMWC's two active wells are located on two separate lots.

4. Of GMWC's 101 current customers, 71 are served by 5/8" x 3/4" meters, and 30 are served by 1" meters. Most of GMWC's customers are residential customers. The average and median monthly consumption levels of GMWC's 5/8" x 3/4" customers are 9,300 gallons and 5,429 gallons, respectively.

5. GMWC's current rates and charges were approved in Decision No. 58869 (November 30, 1994). Decision No. 58869 did not authorize GMWC to provide free water or discounted water to any customer.

6. Staff's Consumer Services Section database shows no complaints filed against GMWC between January 1, 2006, and December 2, 2009.

7. Staff's Compliance Section database shows no outstanding compliance issues for GMWC.

8. GMWC is current on its property and sales tax payments.

9. GMWC is in good standing with the Commission's Corporations Division.

¹ The letterhead for PD Levie's offices lists GMWC, Chino Meadows, Equestrian Development Corporation, Granite Mountain Homesites, Chino Meadows Properties, Paulden Properties, and Investment Properties. (GMWC Reply to Staff Response to Procedural Order ("RPO") (filed May 5, 2010).) The Granite Mountain Homesites development appears also to be referred to as Granite Mountain Estates. (See, e.g., Proc. Conf. Tr. at 16.)

10. GMWC is located in the Prescott Active Management Area ("AMA"). An Arizona Department of Water Resources ("ADWR") compliance status report dated October 20, 2009, shows that GMWC is currently in compliance with ADWR requirements governing water providers and/or community water systems.

11. An Arizona Department of Environmental Quality ("ADEQ") Drinking Water Compliance Status Report dated May 27, 2009, shows that GMWC has no major deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4.

12. GMWC is subject to mandatory participation in ADEQ's Monitoring Assistance Program ("MAP").

13. GMWC has an approved curtailment plan tariff on file with the Commission.

14. GMWC has an approved backflow prevention tariff on file with the Commission.

15. GMWC anticipates adding new customers to its system as private wells within its service area "continue to go dry."² To address this anticipated increase in customers, GMWC is preparing to add an additional 50,000-gallon water storage tank and to drill a new well to replace its inactive Well No. 5, which it refers to as a "grandfathered well."³

16. The properties on which GMWC's active wells (Well No. 3 and Well No. 4) are located are owned by Daniel Paul Levie ("Daniel"), the son of PD and Rae Levie.⁴ Daniel also owns the property on which GMWC intends to drill its replacement well.⁵

17. The evidence is unclear concerning the ownership of the wells and well sites in GMWC's water system.

GMWC's History with the Commission

18. In Decision No. 54902 (February 20, 1986), GMWC received an Order Preliminary to the Issuance of a Certificate of Convenience and Necessity ("CC&N") conditioned upon GMWC's securing a franchise from the Yavapai County Board of Supervisors, a Certificate of Assured Water

² GMWC Response to Letter of Deficiency ("RLOD") at 3.

³ *Id.*; GMWC RPO at 2-3, 14-15.

⁴ GMWC RPO at 17.

⁵ *Id.* at 15.

1 Supply from ADWR, and an appropriate permit to operate its water system from the Arizona
 2 Department of Health Services ("ADHS").⁶ In the Decision, the Commission stated that GMWC had
 3 been created to operate a water utility to provide service to a planned subdivision owned by PD and
 4 Rae Levie and known as Granite Mountain Homesites Unit 4. The Commission further stated:

5 With its initial capitalization, Granite Mountain has developed two well sites
 6 for the planned development. Future development of the system will be funded by
 7 additional capital investments in exchange for more stock and by loans from the
 8 Applicant's president and his wife or their family trust. The Applicant has been
 advised to consult with Staff regarding seeking Commission approval prior to Granite
 Mountain entering into any financing arrangements whatsoever.⁷

9 The Commission also observed that PD Levie was involved in the ownership and management of
 10 three other water companies at the time and that the rates to be adopted were based on an inverted
 11 block structure because GMWC's service area was within a designated AMA under the Groundwater
 12 Code adopted by the Arizona Legislature to promote conservation in various parts of the state.⁸
 13 Regarding future financings, the Commission specifically ordered: "[GMWC] shall apply to the
 14 Commission for its approval prior to securing any additional loans or entering into any other financial
 15 arrangements or issuing any additional stock."⁹

16 19. In Decision No. 55395 (January 28, 1987), the Commission issued GMWC its CC&N.
 17 The legal description for the CC&N service area was subsequently corrected in Commission Decision
 18 No. 56333 (January 26, 1989).

19 20. In Decision No. 55921 (March 25, 1988), in which GMWC was granted a CC&N
 20 extension, the Commission found that GMWC was in the near future to file a financing application
 21 requesting Commission approval for the funding of additional plant that was presently being
 22 constructed and ordered: "[GMWC] shall apply to the Commission prior to securing any loans, or
 23 entering into any other financial arrangements (including the sale of utility property or issuing any
 24 additional stock)."¹⁰

25 21. In Decision No. 58869 (November 30, 1994), in which GMWC's current rates and

26 ⁶ This was prior to the legislative creation of ADEQ, which became effective in 1987.

27 ⁷ Decision No. 54902 at 2 (emphasis added).

28 ⁸ *Id.* at 3-4.

⁹ *Id.* at 8 (emphasis added).

¹⁰ Decision No. 55921 at 5 (emphasis added).

1 charges were approved, the Commission ordered GMWC to "operate under Commission Rules and
 2 Regulations contained in A.A.C. Title 14, Chapter 2, Article 4" and to "convert the entire \$210,000
 3 being carried as loans to paid-in-capital," but did not further discuss the circumstances surrounding
 4 the loans or any violations by GMWC of Commission rules and regulations. The Commission did
 5 observe, however, that the Staff Report had recommended that GMWC file an application for an
 6 extension of its CC&N and for approval of the main extension agreement with the customers it was
 7 servicing in a non-contiguous area.

8 22. In Decision No. 59372 (November 1, 1995), involving an application for a CC&N
 9 extension, the Commission found that GMWC was already serving approximately six customers
 10 located outside the boundaries of its CC&N service area, three of whose properties were not
 11 contiguous to the CC&N service area.¹¹ The non-contiguous properties were being served by a main
 12 extension, from GMWC's storage facility, for which GMWC had not obtained an Approval to
 13 Construct from ADEQ. The Commission approved the CC&N extension, conditioned on GMWC's
 14 filing within one year an ADEQ Approval to Construct for the existing extension to its system.

15 23. In Decision No. 59644 (May 15, 1996), GMWC was granted another CC&N
 16 extension.

17 24. In Decision No. 61731 (June 4, 1999), which involved both an application for
 18 retroactive approval of long-term debt and an application for approval to issue long-term debt or
 19 equity, the Commission retroactively approved issuance of a five-year promissory note for \$5,000
 20 with no interest, payable to an affiliated entity¹² for the purchase of a backhoe, and approved issuance
 21 of up to \$125,140 in common stock, with the funds produced thereby to be used to finance the
 22 construction of new water lines and improvements. The Commission found that GMWC had,
 23 between July 1985 and June 1996, obtained unauthorized long-term debt in the form of nine separate
 24 loans totaling \$213,300. The Commission found that although it had previously ordered GMWC, in
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26 ¹¹ A.R.S. § 40-281 requires a public service corporation to obtain Commission approval before it extends service into
 27 an area that is not contiguous to its currently certificated area. In Decision No. 59372, however, the Commission did not
 28 discuss whether GMWC had violated the statute.

¹² The promissory note was payable to Equestrian Development Corporation ("EDC"), a developer owned and operated
 by PD Levie. GMWC had actually obtained the backhoe from Chino Meadows, which had obtained it from EDC.
 (Decision No. 61731 at 3.)

Decision No. 58869, to “convert the entire \$210,000 being carried as loans to paid-in-capital,” GMWC had failed to comply with that Decision and, in addition, had continued to obtain additional long-term debt without prior Commission approval.¹³ The Commission conditioned its approval of the \$5,000 promissory note and the issuance of common stock on GMWC’s filing, within 30 days, copies of appropriate journal entries converting all outstanding unauthorized debt to paid-in capital. The Commission further ordered: “[GMWC] shall, in the future, not issue any long-term debt or other evidences of indebtedness without prior Commission approval.”¹⁴

Procedural History

25. On June 30, 2009, GMWC filed an application for a permanent rate increase, using calendar year 2008 as its TY (“rate application”). GMWC reported unaudited TY operating revenues of \$74,122¹⁵ and operating income of \$1,205. GMWC requested an increase in revenues of \$14,797, or approximately 20 percent over its reported unaudited TY revenues, for total annual operating revenues of \$88,919.¹⁶ In its rate application, GMWC also reported that it had a total of \$132,794 in outstanding long-term notes and bonds, which it attributed to three interest-free loans obtained from the Paul D. & Rae Levie Trust (“Levie Trust”) in 2004, 2006, and 2007. The rate application did not reference any Commission Decision granting authority for GMWC to obtain any of the three loans. To support its requested rate increase, GMWC stated that the Town of Chino Valley has requested to purchase Chino Meadows, which has shared office and field staff with GMWC; that fuel, labor, parts, and materials costs have increased dramatically since its last rate case in 1994; that GMWC needs to upgrade its system to improve efficiency and cost-effectiveness; that GMWC is currently preparing to add an additional 50,000-gallon water storage tank; that GMWC will need to drill a replacement well within the next year; and that the GMWC-proposed rates are tiered to encourage conservation and a more reasonable level of use because some GMWC customers have very high consumption. GMWC also stated that it had inadvertently not obtained Commission approval of financings related to improvements completed in the new Granite Mountain Homesites Subdivisions Unit 5, Phases 2 and

¹³ Decision No. 61731 at 3.

¹⁴ *Id.* at 6 (emphasis added).

¹⁵ GMWC also reported its total operating revenues as \$73,987. It is unclear why this discrepancy exists.

¹⁶ Due to the discrepancy referenced in the previous note, this was also stated as \$88,784.

1 3.

2 26. In its rate application, GMWC included an affidavit stating that notice of the rate
3 application had been sent to GMWC's customers by mail on June 29, 2009. The copy of notice
4 included with the application did not, however, include copies of the application pages referenced in
5 the notice as attachments thereto.

6 27. Also on June 30, 2009, GMWC filed an application for approval of financing
7 requesting approval of (1) a line of credit from JP Morgan Chase Bank in the amount of \$125,000.00
8 to provide for further development of GMWC infrastructure and water storage, primarily for the
9 design and construction of a 50,000-gallon storage tank, retaining wall, and required fencing, and (2)
10 the promissory notes associated with the three loans obtained in 2004, 2006, and 2007 ("financing
11 application"). In the financing application, GMWC stated that the promissory notes for the three
12 loans had been paid in full from operations and were no longer outstanding obligations of GMWC.
13 GMWC stated that the three loans were all for extensions of transmission and distribution mains for
14 which work had been completed by McMains and Sons Excavation, Inc.

15 28. In its financing application, GMWC included an affidavit stating that notice of the
16 financing application had been provided to GMWC's customers on June 29, 2009. The affidavit did
17 not indicate in what manner notice had been provided, and the notice itself did not provide any
18 contact information for the Commission.

19 29. On July 17, 2009, customer comments were filed regarding the rate application, in
20 which the customer asserted that the 50,000-gallon storage tank is not yet in service, that the new
21 well is not yet being used because the two original wells are still producing adequate supply for
22 current customers, that customers who use less than the average amount of water like himself should
23 not be penalized through conservation-oriented rates created due to several customers who use up to
24 30,000 gallons per month, that GMWC should be mandated to provide fire hydrants on their water
25 mains so that the area will have better fire protection and lower fire insurance premiums, and that
26 GMWC's bills should state the date that a customer's meter was read.

27 30. On July 30, 2009, the Commission's Utilities Division ("Staff") issued a Letter of
28 Deficiency and Data Request.

1 31. On August 11, 2009, a Procedural Order was issued consolidating the rate application
2 and financing application and requiring GMWC to provide each of its customers prescribed notice of
3 the consolidated matter by mail and to docket certification of mailing such notice to its customers.

4 32. On August 14, 2009, GMWC filed its Response to Letter of Deficiency, including a
5 number of revised pages for the rate application as well as a breakdown of the water pumped during
6 the TY and of the usage on six meters that GMWC described as "non-billed meters that were not
7 being read."¹⁷ Among the revisions were revised data regarding the three loans, which GMWC
8 newly showed as fully paid during the TY.

9 33. On August 27, 2009, GMWC filed an affidavit stating that its customers had been
10 provided notice of the consolidated matter, in accordance with the Procedural Order, by mail on
11 August 21, 2009. The copy of notice accompanying the affidavit complied with the requirements of
12 the Procedural Order.

13 34. On September 2, 2009, Staff issued a Second Letter of Deficiency and Data Request.

14 35. On September 15, 2009, customer comments were filed in which the customer
15 asserted that the proposed rate increase is excessive. The customer calculated that the projected
16 increase would be 20 percent for approximately half of the year and stated that this level of increase
17 would be acceptable. The customer stated that the new third tier for monthly usage over 20,000
18 gallons "would greatly affect those of us with landscaping that requires water and that was installed
19 under the previous two tier rate structure."

20 36. On September 17, 2009, GMWC filed its Response to Second Letter of Deficiency,
21 which included a number of revised rate application pages.

22 37. On October 19, 2009, Staff issued a Letter of Sufficiency stating that GMWC's
23 applications had met the sufficiency requirements outlined in the Arizona Administrative Code and
24 that GMWC had been classified as a Class D utility.

25 38. On December 1, 2009, a bundle of documents was docketed without any indication of
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27

28 ¹⁷ RLOD at 3, 18 Att. #2.

1 by whom it was docketed.¹⁸ The documents included a number of revised application pages, many of
 2 which include handwritten notations. In addition, the documents include a copy of an "Easement and
 3 Agreement for Ninety Nine Years Between the Paul D. and Rae Levie Trust dated 11-20-73, Granite
 4 Mountain Water Company, an Arizona Corporation, and Daniel Paul Levie, a single man"
 5 ("Easement Agreement").

6 39. On January 4, 2010, Staff filed its Staff Report, in which it recommended approval of
 7 the rate application using Staff's recommended rates and charges and recommended denial of the
 8 financing application. Because Staff recommended a larger revenue requirement and higher rates
 9 than requested by GMWC, Staff recommended that GMWC notify its customers of Staff's
 10 recommended increase in revenue and rates. Regarding the financing application, Staff stated that
 11 the line of credit for which GMWC was requesting approval had already been secured by GMWC
 12 without approval; that GMWC had already drawn on the line of credit; and that the construction
 13 project for which the line of credit was to be used had already been completed with the exception of
 14 connecting the new storage tank to the existing system, although GMWC had not yet obtained an
 15 Approval to Construct from ADEQ. Staff stated that the line of credit was not a loan and
 16 recommended that it be classified as paid-in capital, which needs no Commission approval. Staff
 17 further stated that the three loans needed no further consideration, as they had been paid in full. Staff
 18 did not discuss the Easement Agreement or address the water usage on the six non-billed meters that
 19 were not read during the TY. Rather, Staff stated that GMWC believed the water loss to be due to
 20 theft during the TY.

21 40. GMWC did not file a response to the Staff Report and did not make any filing
 22 indicating that it had provided its customers notice of Staff's recommended revenue requirement and
 23 rates and charges.

24 41. On March 17, 2010, a Procedural Order was issued stating that the record in this
 25 matter was not sufficient to allow the Commission to reach a decision on either the rate application or
 26 the financing application, as too many unanswered questions remained, and scheduling a procedural

27 ¹⁸ GMWC and Staff now appear to agree that the bundle of documents was filed by the Staff analyst originally assigned
 28 to the consolidated matter, who has since retired; that the revised application pages and other documents were provided to
 the Staff analyst by GMWC; and that the handwritten notations are those of the Staff analyst.

1 conference to discuss the questions and how the matter would proceed. The Procedural Order also
2 suspended the time frame in this matter.

3 42. On March 29, 2010, a procedural conference was held in this matter at the
4 Commission's offices in Phoenix, Arizona. GMWC appeared through PD Levie, who is a licensed
5 Arizona attorney, and Staff appeared through counsel. The parties were advised of numerous
6 questions for each to answer and were provided an opportunity to discuss amongst themselves how
7 the questions should be answered and how the matter should proceed. The parties agreed that they
8 would like to have a Procedural Order issued memorializing the questions, to which they would
9 respond in writing. Neither indicated a desire to hold a hearing. GMWC provided a copy of a draft
10 notice for its customers, and it was determined that the Procedural Order would also address the
11 notice to be provided to GMWC's customers. The parties were informed that they would be given an
12 opportunity to reply to each other's filed responses, that they should err on the side of providing more
13 information than they believed necessary, and that they should provide supporting documents along
14 with their responses to the extent such documents are available.

15 43. On March 30, 2010, a Procedural Order was issued requiring GMWC and Staff each
16 to file full and complete responses to their prescribed questions by April 19, 2010; requiring each
17 party to file any reply to the responses of the other party by May 3, 2010; requiring GMWC to send
18 each of its customers prescribed notice by mail by April 9, 2010; and requiring GMWC to file
19 certification of mailing notice by April 19, 2010.

20 44. On April 19, 2010, Staff filed Staff's Responses to Procedural Order – Exhibit B
21 Questions ("Staff RPO").

22 45. On April 19, 2010, Gary Fujinami, a GMWC customer, filed a letter stating that he is
23 a customer because most of his neighbors' wells went dry after GMWC drilled the well and that he
24 and his closest neighbor elected to hook up to GMWC because the \$12,000 necessary to do so was
25 less than the cost of drilling more than 600 feet. Mr. Fujinami stated that he does not know how
26 GMWC can justify increasing its water rates in the current economy, which has already resulted in
27 the loss of "quite a few neighbors." Mr. Fujinami stated that he himself is having difficulty staying
28 out of bankruptcy and closed by saying that he was filing a motion to intervene and protest the

1 increase of water rates. Mr. Fujinami's letter did not state whether he desired a formal evidentiary
2 hearing to be held and did not indicate that a copy of his document had been sent to GMWC or its
3 counsel.

4 46. On April 20, 2010, a Procedural Order was issued requiring Mr. Fujinami to file, by
5 April 30, 2010, a document clarifying whether he desired to participate as an intervenor or only to
6 provide public comment and whether he desired for a formal evidentiary hearing to be held and, if so,
7 the reasons for holding such a hearing. The Procedural Order further required GMWC and Staff, by
8 May 14, 2010, to file responses to Mr. Fujinami's filing required therein.

9 47. On April 21, 2010, GMWC filed its Response to ALJ Procedural Order dated March
10 30, 2010 ("GMWC RPO").¹⁹

11 48. On April 23, 2010, GMWC filed an affidavit of notice stating that its customers had
12 been mailed notice in accordance with the March 30, 2010, Procedural Order, on April 8, 2010. The
13 copy of notice included showed that the notice provided complied with the Procedural Order of
14 March 30, 2010.

15 49. On May 3, 2010, Staff filed Staff's Responses to Company's Responses to March 30,
16 2010 Procedural Order – Exhibit A ("Staff Reply to GMWC RPO").

17 50. On May 5, 2010, GMWC filed its Reply to Staff's A.L.J. Questions dated April 19,
18 2010 ("GMWC Reply to Staff RPO").

19 51. On May 10, 2010, Mr. Fujinami's response to the Procedural Order was filed, in
20 which he stated that he was only providing public comment in this matter and hoping that the
21 Commission would decide on the fair thing. Mr. Fujinami questioned whether raising rates was a
22 wise thing to do in light of the present economic circumstances.

23 Storage Capacity and Water Supply

24 52. Staff conducted an inspection and evaluation of GMWC's water system on September
25 21, 2009. At the time of inspection, Staff observed that installation of a new 50,000-gallon storage
26 tank was nearly complete and that the new storage tank was being built at the site of the existing
27

28 ¹⁹ GMWC had earlier sent a copy of its responses directly to the Hearing Division, but was instructed to file them with the Commission's Docket Control as required by the Procedural Order.

1 storage tank. Staff also observed that the existing storage tank has a height of 26 feet and that the
2 new storage tank was being built at a height of 16 feet.

3 53. Staff concluded that GMWC's water system needs significantly more storage capacity
4 than will be provided by the new 50,000-gallon storage tank under construction. Staff determined
5 that more storage is needed in part because of the dimensions and location of the new storage tank.
6 Staff explained that the two tanks are interconnected and are installed at the same elevation, although
7 the existing tank has a height of 26 feet versus the 16-foot height of the new storage tank. Staff stated
8 that, as a result, GMWC will only be able to partially fill its existing storage tank, because attempting
9 to fill the existing tank to a water level higher than the height of the new tank will increase hydraulic
10 pressure such that it could damage the new tank. Staff asserted that the existing 19,000-gallon
11 storage tank will have a usable capacity of only 11,700 gallons due to the configuration of the two
12 tanks. Further, Staff calculated that GMWC needs 110,000 gallons of additional storage capacity to
13 meet Yavapai County fire flow requirements of 1,000 GPM for at least one hour.

14 54. Staff asserted that it does not believe the new 50,000-gallon storage tank was designed
15 by a qualified, certified engineer and also pointed out that it was constructed without ADEQ
16 approval.²⁰ GMWC asserts that both the 50,000-gallon storage tank and the accompanying retaining
17 wall were designed by active Registered Professional Civil Engineers.²¹ GMWC acknowledges that
18 it did not obtain an ADEQ Approval to Construct ("ATC") before beginning construction of the
19 50,000-gallon storage tank, but asserts that it applied for the ATC in October 2008 and received
20 "verbal authorization from the ADEQ to begin construction" in April 2009.²² GMWC received an
21 ATC for the storage tank project on February 17, 2010.²³ As of April 5, 2010, the storage tank
22 project had not yet been completed, and the storage tank was not in service.²⁴ GMWC expects the
23 storage tank project to be completed later in 2010.²⁵

24 55. GMWC contends that the additional 110,000 gallons of storage capacity are not
25

26 ²⁰ Staff RPO at 6.

27 ²¹ GMWC Reply to Staff RPO at 6.

28 ²² GMWC RPO at 13.

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.* at 11.

1 required for it to meet Yavapai County fire flow requirements because GMWC has a valid and
 2 binding Variance from the Central Yavapai Fire District. GMWC also asserts that adding such a
 3 storage tank is not practical at this time.

4 56. The Central Yavapai Fire District granted a Variance as to the Granite Mountain
 5 Homesites Unit 5 and Granite Park Ranch subdivisions on November 13, 1996.²⁶ Among other
 6 things, the Variance requires each residential building constructed in the affected subdivisions to
 7 have an installed sprinkler system, requires installation of one fire hydrant with a minimum flow of
 8 500 GPM for 30 minutes in each of the subdivisions, sets a maximum number of lots to be served by
 9 the existing water system; and prohibits additional lots from being added to the water system
 10 “without a significant improvement in storage capacity and the ability to supply sufficient
 11 pressures.”²⁷ GMWC asserts that the Variance has not been revoked and that the Central Yavapai
 12 Fire District has expressed satisfaction that GMWC is adding the new 50,000-gallon storage tank, but
 13 would like for GMWC to work toward meeting fire flow requirements in the future.²⁸ GMWC did
 14 not provide any current documentation from the Central Yavapai Fire District to support its assertions
 15 that the Variance means it does not need additional storage capacity or as to the Fire District’s current
 16 position.²⁹

17 57. GMWC is planning to drill a replacement well within 660 feet of Well No. 5, an
 18 inactive well in its system that was in use when the land was purchased by the Levies in 1969.³⁰ It is
 19 unclear who owns Well No. 5.³¹ Well No. 5 is located on property owned by Daniel.³² Although a
 20 hydrological study of the area has not been completed, and the amount of groundwater that could be
 21 produced has not been determined, GMWC states that the grandfathered status of the well means that
 22 the well capacity and production will be based on ADWR criteria.³³ GMWC calculates that the
 23

24 ²⁶ App. at 18a.

25 ²⁷ App. at 18a-18b.

26 ²⁸ GMWC RPO at 15-16.

27 ²⁹ We note that the Variance appears to cover only Granite Mountain Homesites Unit 5 and Granite Park Ranch and
 28 that GMWC has also referred to providing service to Equestrian Estates #2. (See GMWC RPO at 6.)

³⁰ GMWC RPO at 14-15.

³¹ Compare GMWC RPO at 14 (stating that GMWC owns the well) with GMWC RPO at 3-4 (stating that Daniel owns
 the well).

³² GMWC RPO at 14-15.

³³ *Id.* at 15.

1 groundwater rights for the well would be approximately 104.85 acre feet per year, based on the 65
 2 GPM capacity of the original well.³⁴ GMWC obtained an estimate for the cost to drill the
 3 replacement well in February 2009, which was \$25,337.90.³⁵

4 58. Staff supports GMWC's plan to drill a replacement well, stating that the replacement
 5 well would have an anticipated production rate of 65 GPM and would allow GMWC to adequately
 6 serve its existing customers and 79 potential additional customers, that the quoted estimated drilling
 7 cost is reasonable, and that the replacement well would resolve GMWC's inadequate storage capacity
 8 problem.³⁶ Staff clarified that GMWC's inadequate storage capacity problem can be rectified either
 9 by drilling a replacement well or by installing a new 110,000-gallon storage tank and that GMWC
 10 does not need to do both.³⁷

11 59. GMWC has asserted that it is planning to add yet another 50,000-gallon storage tank
 12 and that it has designed and built space for the additional 50,000-gallon tank next to the new storage
 13 tank that is under construction.³⁸

14 Lost Water

15 60. GMWC reported 11,812,500 gallons pumped³⁹ and 9,390,794 gallons sold for the TY.
 16 This represents water loss of 2,421,706 gallons, or 20.50 percent, which is more than twice Staff's
 17 recommended maximum threshold of 10-percent water loss.

18 61. GMWC reports that its system has been very reliable as far as leaks are concerned and
 19 that 42,590 gallons were lost during the TY from known line breaks. GMWC attributes the
 20 remainder of the TY water loss to a number of meters on its system that were not read (or billed for
 21 use) during the TY.

22 62. In an August 2009 filing, GMWC asserted that it had "discovered additional non-
 23 billed meters that were not being read. Based on current usages these meters consumed
 24

25 ³⁴ *Id.*

26 ³⁵ *Id.*

27 ³⁶ Staff RPO at 4-5.

28 ³⁷ *Id.* at 7.

³⁸ GMWC Reply to Staff RPO at 6.

³⁹ In its application, GMWC originally reported 12,053,480 gallons pumped for the TY. It modified that number in its RLOD.

approximately 1,320,600 gallons during the test year.”⁴⁰ GMWC also stated at that time that it had begun reading all known meters within the water system on a monthly basis, “regardless of billing status.”⁴¹ GMWC provided the following “GMWC Water Usage 2008 Revisions” for the “non-billed meters that were not being read”:

“Unread Non-Billed Meters”⁴²	Average Monthly Use (Gallons)
Acct. 99.997.01	9,630
Acct. 99.996.01	23,340
Acct. 99.995.01	5,550
Acct. 99.994.01	3,210
Acct. 99.993.01	16,230
Acct. 99.992.01	0
Acct. 81.022.01	52,090
Monthly Total	110,050
Total 2008 Unread per Yr	1,320,600

With annual usage of 1,320,600 gallons from unread meters and the TY water loss from known breaks factored in, this would result in unaccounted for TY water loss of 1,058,516 gallons, or 8.96 percent, which is within Staff’s recommended maximum threshold of 10 percent.

63. In an April 2010 filing, GMWC again explained that its excessive TY water loss was attributable primarily to meters on its system that were not read during the TY. This time, GMWC stated that it had in April 2009 discovered three residential properties on a “historically unknown water line attached to the water main” (“old line”) in addition to discovering that several meters providing landscaping water in the Granite Mountain Estates area (including meters at GMWC’s tank site, one meter at a drainage site, and one meter at its prior office on Rainmaker Road) had not been included during a software conversion and thus had not been read.⁴³ GMWC explained that it responded by inputting the landscaping meters into the software system “as non-billed accounts . . . to ensure that the water used was accounted for,” by installing a single 1” meter on the old line (at the

⁴⁰ RLOD at 3.

⁴¹ *Id.*

⁴² This data is taken from the RLOD at 18 Att. #2.

⁴³ GMWC RPO at 6-7.

owner's request), and by performing monthly readings of all of the meters since their discovery.⁴⁴ GMWC stated that PD Levie was aware of the old line serving the residential properties, does not consider the usage at those properties to be a case of theft, will not prosecute for the use, and does not intend to seek any payment for the use prior to April 2009.⁴⁵ In April 2010, GMWC stated that the average monthly usage for the three residential properties was approximately 45,116 gallons and that the average monthly usage for Granite Mountain Estates landscaping was approximately 21,962 gallons per month.⁴⁶ This would represent annual usage of approximately 804,936 gallons and, if the TY water loss from known breaks is factored in, would result in unaccounted for TY water loss of 1,574,180 or approximately 13.33 percent, which exceeds Staff's recommended maximum threshold of 10 percent.

64. GMWC also provided Staff post-TY water loss data showing water loss of approximately 7.56 percent for January through September 2009, with all meters being monitored. GMWC ultimately reported total water loss of 9.4 percent for calendar year 2009, with data for all known meters included.

65. The two sets of figures provided by GMWC to reflect the water usage for the unmonitored meters appear to be inconsistent. In spite of this, however, both sets of figures establish (1) that GMWC failed to perform monthly readings of some of the meters on its system during the TY and (2) that GMWC did not collect rates and charges for a large quantity of water usage during the TY. Because GMWC has assigned some meters to "non-billed" accounts, including several meters used to provide landscaping water to Granite Mountain Estates, it appears that GMWC would not have billed for some of the water usage even if GMWC had been tracking such usage on a monthly basis, as it now is.

66. The TY water usage numbers for the "unread non-billed meters" provided by GMWC in August 2009 appear to be more reliable than do the water usage numbers provided by GMWC in April 2010. The August 2009 numbers are provided by specific account, would better explain the very large quantity of lost water during the TY, and are more consistent with the post-TY data

⁴⁴ *Id.* at 6-8.

⁴⁵ *Id.* at 7-8.

⁴⁶ *Id.* at 8.

1 regarding water loss provided by GMWC. We find that the water usage for the meters that went
 2 unread during the TY is displayed in the table set forth above and, thus, that GMWC provided those
 3 accounts a total of 1,320,600 gallons during the TY for which it did not bill.

4 **Easement Agreement**⁴⁷

5 67. The Easement Agreement is dated December 28, 2001; is signed by PD Levie for
 6 GMWC and by Daniel as an individual; states that Daniel is the owner of the parcels of land
 7 described in Exhibits A and B thereto; that PD Levie is the owner of all of the stock in GMWC and
 8 was the owner of the two well sites and wells now owned by GMWC which were and are located and
 9 drilled on Daniel's parcels; that water facilities, mains, and lines have been located on, over, and
 10 across Daniel's parcels and have been in use by GMWC by agreement since 1995; and that it is
 11 agreed that Daniel grants and conveys unto GMWC two permanent well sites of 20 feet by 20 feet,
 12 together with easements for the two existing wells, well sites, well houses, main lines, water lines,
 13 pumps and other facilities as they exist on and over parcels "A" and "B," in return for which Daniel
 14 shall receive (1) \$10.00; (2) free use of water on the property described in Exhibit A ("Daniel's home
 15 property") for domestic purposes, gardens, shrubs, and other incidental uses without further charges
 16 or expense; (3) discounted use of water for the property described in Exhibit B ("Stables Property")
 17 (charged at a rate of \$2.00 per 1,000 gallons); and (4) cancellation of the existing accumulated
 18 charges for Daniel's home property. The Easement Agreement states that "[t]he other rental
 19 properties shall pay the metered rates for water usage."

20 68. GMWC reports that Daniel's home property and the Stables Property were transferred
 21 to Daniel by PD Levie, as Trustee of the Levie Trust, for consideration of \$10.00, pursuant to a Quit-
 22 Claim Deed recorded with the Yavapai County Recorder's office on December 31, 2001.⁴⁸ Yavapai
 23 County records show that the Quit-Claim Deed was signed on December 28, 2001.⁴⁹

24 69. GMWC reports that TY water usage at Daniel's home property totaled 329,610
 25 gallons and generated no revenues; that TY water usage at the Stables Property totaled 381,430
 26

27 ⁴⁷ A copy of the Easement Agreement was included in the bundle of documents filed on December 1, 2009, and in the Staff RPO.

28 ⁴⁸ GMWC RPO at 19.

⁴⁹ Official notice is taken of this Quit-Claim Deed, which is a public record.

1 gallons and generated a total of \$917.87 in revenues;⁵⁰ that both Daniel's home property and the
 2 Stables Property are equipped with 5/8" x 3/4" meters; and that the water usage for both properties was
 3 included in the water usage figures reported to the Commission.⁵¹ GMWC stated that the water usage
 4 at the two properties was "relatively similar" to the usage at the same properties in the years before
 5 and after the TY.⁵²

6 70. Staff stated that it is the Commission's policy that no one should receive free water.⁵³
 7 Staff observed that the Easement Agreement appears to conflict with GMWC's tariffs and that a
 8 utility's failure to charge its customers the rates and charges approved by the Commission can be
 9 addressed by imputation for ratemaking purposes.⁵⁴ Staff stated that it typically imputes into TY
 10 revenue the revenue that was lost by offering any free or discounted water and that the imputation
 11 protects ratepayers from inappropriately subsidizing water use of owners, operators, or others.⁵⁵ Staff
 12 calculated that the lost TY revenue attributable to the properties covered by the Easement Agreement
 13 was \$2,949, with \$1,804 attributable to Daniels's home property and \$1,145 attributable to the
 14 Stables Property.⁵⁶

15 71. There is no information in the record regarding the fair market value of the easements
 16 that are provided pursuant to the Easement Agreement.

17 72. During its review of the Easement Agreement, Staff determined that the actual
 18 locations of Well No. 3 and Well No. 4, which are accurately reflected in the Easement Agreement's
 19 legal descriptions of Daniel's home property and the Stables Property, are not the locations included
 20 in ADWR's records for Well No. 3 and Well No. 4.⁵⁷ Staff recommended that GMWC contact
 21 ADWR to correct the discrepancy in ADWR's records.⁵⁸ In May 2010, GMWC provided ADWR
 22

23 ⁵⁰ GMWC RPO at 18. During the TY, the Stables Property was leased to Granite Mountain Stables, which was charged
 24 a minimum monthly fee and a discounted commodity rate of \$2.00 per 1,000 gallons.

25 ⁵¹ *Id.* We interpret this to mean that the water was accounted for both as water pumped and as water sold during the
 TY.

26 ⁵² *Id.* at 18-19.

27 ⁵³ Staff Reply to GMWC RPO at 6.

28 ⁵⁴ Staff RPO at 5-6.

⁵⁵ Staff Reply to GMWC RPO at 6.

⁵⁶ *Id.* at 7-8.

⁵⁷ Staff RPO at 6.

⁵⁸ *Id.*

written notice of the discrepancy.⁵⁹

Rate Application

73. GMWC's current rates and charges, GMWC's proposed rates and charges, and Staff's recommended rates and charges are as follows:

MONTHLY USAGE CHARGE:

	<u>Present</u>	<u>Company</u>	<u>Staff</u>
	<u>Rates</u>	<u>Proposed</u>	<u>Recommended</u>
5/8" x 3/4" Meter (All Classes)	\$ 23.00	\$ 27.60	\$ 28.00
3/4" Meter (All Classes)	33.75	40.50	45.00
1" Meter (All Classes)	56.25	67.50	65.00
1-1/2" Meter (All Classes)	112.50	135.00	150.00
2" Meter (All Classes)	180.00	216.00	240.00
3" Meter (All Classes)	337.50	405.00	480.00
4" Meter (All Classes)	565.50	678.60	750.00
6" Meter (All Classes)	1,125.00	1,350.00	1,500.00
Standpipe (Construction, Bulk)	Not Tariffed	Not Included	None

COMMODITY RATES (Per 1,000 Gallons):

All Meter Sizes

1 to 10,000 Gallons	\$4.00
Over 10,000 Gallons	5.00

1 to 10,000 Gallons	\$4.80
10,001 to 20,000 Gallons	\$6.00
Over 20,000 Gallons	\$9.00

5/8" x 3/4" Meter (All Classes)

1 to 4,000 Gallons	\$4.50
4,001 to 10,000 Gallons	7.00
Over 10,000 Gallons	9.25

3/4" Meter (All Classes)

1 to 4,000 Gallons	\$4.50
4,001 to 10,000 Gallons	7.00
Over 10,000 Gallons	9.25

1" Meter (All Classes)

1 to 10,000 Gallons	\$7.00
Over 10,000 Gallons	9.25

1 1/2" Meter (All Classes)

1 to 20,000 Gallons	\$7.00
---------------------	--------

⁵⁹ GMWC Reply to Staff RPO at 9.

Over 20,000 Gallons	9.25
<u>2" Meter (All Classes)</u>	
1 to 40,000 Gallons	\$7.00
Over 40,000 Gallons	9.25
<u>3" Meter (All Classes)</u>	
1 to 144,000 Gallons	\$7.00
Over 144,000 Gallons	9.25
<u>4" Meter (All Classes)</u>	
1 to 225,000 Gallons	\$7.00
Over 225,000 Gallons	9.25
<u>6" Meter (All Classes)</u>	
1 to 450,000 Gallons	\$7.00
Over 450,000 Gallons	9.25
<u>Standpipe, Bulk Water</u>	
All Usage	Not Tariffed Not Included \$9.25

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Company</u>		<u>Staff Recommended</u>		
	<u>Present</u>	<u>Proposed</u>	Service		
	<u>Total</u>	<u>Total</u>	<u>Line</u>	<u>Meter</u>	<u>Total</u>
	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
5/8" x 3/4" Meter	\$ 400.00	\$ 500.00	\$ 405.00	\$ 95.00	\$ 500.00
3/4" Meter	450.00	575.00	413.00	162.00	575.00
1" Meter	555.00	650.00	441.00	209.00	650.00
1-1/2" Meter	716.00	716.00	395.00	321.00	716.00
2" Meter	1,572.00	1,572.00	727.00	845.00	1,572.00
3" Meter	2,400.00	2,400.00	952.00	1,448.00	2,400.00
4" Meter	3,516.00	3,516.00	1,310.00	2,206.00	3,516.00
6" Meter	6,916.00	6,916.00	2,160.00	4,756.00	6,916.00

	<u>Present</u>	<u>Company</u>	<u>Staff</u>
	<u>Rates</u>	<u>Proposed</u>	<u>Recommended</u>
SERVICE CHARGES:			
Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	\$25.00	\$35.00	\$35.00
Reconnection (Delinquent)	\$25.00	\$35.00	\$35.00
Reconnection (Delinquent) (After Hours)	\$25.00	\$45.00	\$45.00
Meter Test (If Correct)	\$35.00	\$50.00	\$35.00
Deposit	*	*	*
Deposit Interest	*	*	*

Re-Establishment (within 12 mos.)	**	**	**
NSF Check	\$15.00	\$35.00	\$20.00
Deferred Payment (per month)	1.00%	1.00%	1.00%
Meter Re-Read (If Correct)	\$10.00	\$15.00	\$15.00
Late Fee (per month)	None	\$10.00	***

* Per Commission rule A.A.C. R14-2-403(B).

** Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).

*** 1.50 percent of the unpaid balance per month.

74. GMWC proposed an original cost rate base ("OCRB") of \$316,296 and waived the right to have its fair value rate base ("FVRB") determined using reconstruction cost new.

75. Staff determined that GMWC's FVRB is equivalent to its OCRB and is \$326,014, which reflects an overall increase of \$9,718 from GMWC's proposed OCRB. Staff's adjustments to GMWC's OCRB reduced accumulated depreciation by \$4,290 (based upon Staff's computation of depreciation expense starting with the last rate case, using correct depreciation rates, and excluding depreciation for a plant asset removed from service) and added \$5,428 in cash working capital, which Staff routinely recommends for small water utilities.

76. We find that Staff's adjustments to GMWC's OCRB are reasonable and appropriate. We further find that GMWC's FVRB is equivalent to its OCRB and is \$326,014.

77. GMWC ultimately reported actual unaudited TY revenues of \$80,626; TY operating expenses of \$78,718; and TY operating income of \$1,908. Using the FVRB adopted herein, this TY operating income reflects a return on rate base of approximately 0.59 percent.

78. Staff made no adjustments to GMWC's TY revenues; adjusted GMWC's TY operating expenses to \$77,959; and determined GMWC's adjusted TY operating income to be \$2,667. This TY operating income represents a return on rate base of approximately 0.82 percent.

79. Staff decreased GMWC's adjusted TY operating expenses by \$759 overall. Staff's adjustments to operating expenses include an increase in salaries and wages of \$19,563, to represent the cost of labor provided by Chino Meadows at no cost to GMWC during the TY; a decrease of \$14,928 in outside services, to exclude a one-time labor cost of \$1,855, \$1,973 in legal fees pertaining to post-TY plant items, and \$11,100 in post-TY plant expenses that are capital assets; an

1 increase of \$1,823 in water testing expense to reflect Staff's calculation of annual water testing
 2 expenses; a decrease of \$1,358 in regulatory commission expense to remove a \$2,000 penalty
 3 imposed by ADWR⁶⁰ and a negative \$642 that should have been included under water testing
 4 expense; and a decrease of \$5,859 in depreciation expense to reflect Staff's calculation using the
 5 correct depreciation rates. We find that Staff's adjustments to GMWC's TY operating expenses are
 6 reasonable and appropriate, and we adopt Staff's adjusted TY operating expense figure of \$77,959.

7 80. GMWC ultimately proposed total operating revenue of \$95,423, an increase of
 8 \$14,797, or 18.35 percent, over its TY operating revenue of \$80,626. Using the TY operating
 9 expenses and FVRB adopted herein, this would result in operating income of \$17,464 and a rate of
 10 return of 5.36 percent.

11 81. Staff recommends total operating revenue of \$110,575; an increase of \$29,949, or
 12 37.15 percent, over GMWC's TY operating revenue of \$80,626. Using the TY operating expenses
 13 and FVRB adopted herein, this would result in operating income of \$32,616 and a rate of return of
 14 10.00 percent.

15 82. GMWC's proposed rates and charges would increase the monthly bill for a customer
 16 with a 5/8" x 3/4" meter and median usage of 5,429 gallons from \$44.72 to \$53.66, an increase of
 17 \$8.94 or 20.0 percent. For a customer with a 5/8" x 3/4" meter and average usage of 9,300 gallons,
 18 GMWC's proposed rates and charges would increase the monthly bill from \$60.20 to \$72.24, an
 19 increase of \$12.04 or 20.0 percent.

20 83. Staff's recommended rates and charges would increase the monthly bill for a customer
 21 with a 5/8" x 3/4" meter and median usage of 5,429 gallons from \$44.72 to \$56.00, an increase of
 22 \$11.28 or 25.2 percent. For a customer with a 5/8" x 3/4" meter and average usage of 9,300 gallons,
 23 Staff's recommended rates and charges would increase the monthly bill from \$60.20 to \$83.10, for an
 24 increase of \$22.90 or 38.0 percent.

25 84. We find that Staff's recommended revenue requirement of \$110,575 and its

26 ⁶⁰ ADWR imposed a \$2,000 penalty on GMWC in June 2008 after determining that GMWC had in calendar year 2007
 27 used groundwater in excess of the permitted volume allowed for its Well No. 4, in violation of A.R.S. § 45-521. GMWC
 28 explained that neither GMWC nor ADWR could find paperwork showing that GMWC had received ADWR approval to
 change Well No. 4 from a test well to a service well, although GMWC had been using it as a service well for a number of
 years. (GMWC RPO at 13-14.)

recommended rate of return of 10.0 percent are appropriate, and we will adopt them. However, we do not believe that it is appropriate to determine the necessary revenue increase based on GMWC's unadjusted TY revenues of \$80,626, as recommended by Staff. Rather, because GMWC failed to charge for a very large volume of water usage, both through its failure to monitor some of the meters on its system and through its decision to provide both free and discounted water to Daniel through the Easement Agreement, we find that it is necessary and appropriate to impute to GMWC the additional revenues that should have been collected by GMWC during the TY. Specifically, we find that it is necessary and appropriate to impute the following TY revenues:

Account/Property	Average Monthly Use (Gallons)	TY Revenues Imputed
Acct. 99.997.01	9,630	\$738.24
Acct. 99.996.01	23,340	\$1,556.40
Acct. 99.995.01	5,550	\$542.40
Acct. 99.994.01	3,210	\$430.08
Acct. 99.993.01	16,230	\$1,129.80
Acct. 99.992.01	0	0
Acct. 81.022.01	52,090	\$3,281.40
Daniels' Home Property	27,468	\$1,804.08
Stables Property	31,786	\$1,145.29 ⁶¹
Total	169,304	\$10,627.69

85. Thus, we adopt adjusted TY total operating revenue of \$91,254 and will adopt rates to allow GMWC total operating revenue of \$110,575, which is an increase of \$19,321 or 21.17 percent over GMWC's adjusted TY operating revenue. Using the TY operating expenses and FVRB adopted herein, this will result in operating income of \$32,616 and a rate of return of 10.00 percent.

86. We find that Staff's recommendation to convert GMWC's two-tier rate design to a three-tier rate design for the smaller meters on its system is appropriate, and we will adopt it. In addition, we will adopt the tier breakover points recommended by Staff for all meter sizes. Because the revenue increase adopted herein is significantly reduced from that recommended by Staff, however, it is necessary to adopt different monthly usage charges and commodity rates, as follows:

⁶¹ This number reflects deduction of the \$917.87 actually collected by GMWC for this property during the TY.

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter (All Classes)	\$ 25.00
3/4" Meter (All Classes)	37.50
1" Meter (All Classes)	62.50
1-1/2" Meter (All Classes)	125.00
2" Meter (All Classes)	200.00
3" Meter (All Classes)	400.00
4" Meter (All Classes)	625.00
6" Meter (All Classes)	1,250.00

COMMODITY RATES (Per 1,000 Gallons):**5/8" x 3/4" Meter and 3/4" Meter (All Classes)**

First Tier	\$4.40
Second Tier	6.60
Third Tier	7.90

1" Meter and Larger Meters (All Classes)

First Tier	\$6.60
Second Tier	7.90

87. The rates and charges adopted herein will increase the monthly bill for a customer with a 5/8" x 3/4" meter and median usage of 5,429 gallons from \$44.72 to \$52.03, an increase of \$7.31 or 16.35 percent. For a customer with a 5/8" x 3/4" meter and average usage of 9,300 gallons, the rates and charges adopted herein will increase the monthly bill from \$60.20 to \$77.58, for an increase of \$17.38 or 28.87 percent.

88. Staff also recommends adoption of a "Standpipe/Bulk Water" commodity rate set at Staff's recommended third-tier rate, with no monthly minimum charge authorized. The record in this case does not establish that GMWC had any bulk water sales in the TY, either through a multi-user standpipe or through an individually assigned hydrant meter. Nor does the record establish that GMWC currently has any such sales. GMWC does, however, have several fire hydrants on its system. Because GMWC could add a standpipe to its system at any time, if necessary to support its service area, and could at any time be approached by a construction company or other entity desiring to purchase bulk water through an individually assigned hydrant meter, it is appropriate to ensure that GMWC's rates accommodate the provision of such services.

89. Recent Commission decisions have recognized that it is appropriate to allow a

1 monthly minimum charge for individually assigned hydrant meters to recognize the demand that
 2 these meters place on the system and to allow recovery of administrative costs that are not fully
 3 recovered through commodity rates when the meters have been assigned but have no usage for a
 4 given period.⁶² Thus, we find that it is appropriate to authorize a monthly minimum charge for
 5 individually assigned hydrant meters, according to the meter size of the hydrant meter, and to require
 6 GMWC to charge customers the tiered commodity rates adopted herein for their water usage through
 7 such individually assigned hydrant meters, based on meter size.

8 90. In addition, we find that it is appropriate to authorize GMWC to assess the highest
 9 commodity rate authorized herein (\$7.90) for all water obtained through an unassigned hydrant meter
 10 that is used as a standpipe and available to numerous entities, and to prohibit GMWC from assessing
 11 a monthly minimum charge for such usage. In the rate design adopted herein, we will refer to this as
 12 a standpipe rate.

13 91. We find that Staff's recommended service charges are reasonable and appropriate, and
 14 we will adopt them.

15 92. In addition, because there may be instances when GMWC needs to add a meter to an
 16 existing service line, we find that Staff's recommended separate service line and meter installation
 17 charges are reasonable and appropriate, and we will adopt them.

18 **Financing Application**

19 **a. Line of Credit**

20 93. In the financing application, GMWC requested approval for a line of credit loan from
 21 JP Morgan Chase Bank ("Chase") in the amount of \$125,000 ("LOC"), to be used primarily for the
 22 design and construction of the 50,000-gallon storage tank and accompanying facilities. In the
 23 financing application, GMWC provided a breakdown of the estimated costs for the 50,000-gallon
 24 storage tank project, which showed a total estimated cost of \$96,020.

25 94. GMWC obtained the LOC from Chase in 2009.⁶³ Chase required that funds be
 26 deposited to secure the LOC, and the Levie Trust established a \$125,000 deposit account to secure

27 ⁶² It is more appropriate that these costs be incurred by the individual customers that cause them than that they be
 spread over the entire customer base by increasing rates elsewhere to compensate.

28 ⁶³ GMWC RPO at 10.

1 the LOC.⁶⁴ GMWC has been drawing LOC funds to pay for the 50,000-gallon tank project and may
 2 use LOC funds to pay for the drilling of the replacement well.⁶⁵ GMWC asserts that it would have
 3 sought Commission approval prior to having the loan funded if GMWC had been able to obtain a
 4 loan without collateral, as it originally sought from Chase.⁶⁶ GMWC states that prior approval was
 5 not obtained because PD Levie forgot the correct order to follow and failed to instruct GMWC's
 6 manager concerning the requirement to obtain prior approval of financings.⁶⁷

7 95. Staff asserts that the financing application as to the LOC should be denied for several
 8 reasons: (1) because the LOC can be drawn upon for any reason, including to pay operating
 9 expenses, and it is inappropriate for a utility to use long-term loan funds for operating expenses and
 10 would not be possible for the Commission to ensure that LOC funds were used only for capital
 11 expenditures; (2) because the LOC is secured by a personal deposit of the Levie Trust in the full
 12 amount of the LOC, requires payments of interest only during construction, and after construction
 13 will include principal and interest payments based on the availability of GMWC funds, which Staff
 14 believes suggest that the LOC is really a personal loan to the Levies rather than to GMWC; and (3)
 15 because the LOC was obtained without prior Commission approval by GMWC, which has a history
 16 of obtaining long-term loans without prior Commission approval.⁶⁸ Staff recommends that the LOC
 17 be treated as an infusion of cash into GMWC by the Levies, GMWC's owners/shareholders, i.e., as
 18 paid-in capital.⁶⁹

19 96. GMWC agrees with Staff's recommendation to deny the LOC and asserts that GMWC
 20 can issue stock for the unapproved expenditure and put the new storage tank on the books once the
 21 tank is put into service and the existing storage tank is cut down to the height of the new tank as
 22 agreed by GMWC and the homeowners' association. GMWC asserts that Staff's assertions as to the
 23 LOC being used to fund operating expenses and regarding the LOC actually being a personal loan to
 24

25 ⁶⁴ GMWC RPO at 11.

26 ⁶⁵ *Id.* at 11, 13.

27 ⁶⁶ *Id.* at 10.

28 ⁶⁷ *Id.* at 9.

⁶⁸ Staff RPO at 1-2.

⁶⁹ *Id.* at 2-3. Staff explained that the infusion of funds is typically placed in an equity account labeled "paid-in-capital," and that the paid-in-capital increases the value of the shareholders' equity, but is not paid back like a loan; rather, the shareholder gets back equity upon selling shares. (*Id.* at 3.)

the Levies are unfounded.⁷⁰ GMWC acknowledged its bad record in failing to obtain prior approval of loans; acknowledged that it has previously been ordered to convert \$210,000 in loans and \$213,000 in loans to paid-in capital; asserts that PD Levie has been required to take 100-percent equity in stock for every loan to GMWC; concedes that PD Levie will take another \$125,000 in equity for the LOC; and asserts that it is “quite a price to pay” for PD Levie’s “short memory.”⁷¹ GMWC asserts that it has always kept its books in compliance with Commission requirements, that there has never been any commingling of funds, that money has been expended properly and accounted for properly with few exceptions,⁷² that PD Levie has never taken a salary for operating and overseeing GMWC, that PD Levie has never taken money from GMWC, that he has only loaned money to GMWC when it is needed for operations and/or capital improvements, that GMWC would never have been able to borrow money unless it was advanced by or guaranteed by PD Levie, and that PD Levie failed to provide timely and adequate instructions to GMWC’s operators and managers regarding Commission rules and regulations.⁷³ GMWC stated that it is now aware of the need to get prior Commission approval before seeking financing, that it will take appropriate steps to advise future GMWC administrators of that need, and that it appreciates that no sanctions are being imposed at this time.⁷⁴

b. The Three Loans

97. GMWC also sought retroactive approval in the financing application for the promissory notes associated with three interest-free loans obtained from the Levie Trust: (1) a loan for \$27,773.65 obtained on January 5, 2004; (2) a loan for \$26,365.00 obtained on March 23, 2006; and (3) a loan for \$78,655.00 obtained on April 23, 2007 (jointly “the three loans”). GMWC stated that the three loans had been paid in full from operations and were no longer outstanding obligations of GMWC. GMWC included copies of the promissory notes, all of which are signed by PD Levie as

⁷⁰ GMWC Reply to Staff RPO at 2.

⁷¹ *Id.* at 3.

⁷² The exceptions were described as “loans between Mr. Levie and some 20 associated companies he owns or partially owns[, which] have been properly documented and accounted for long term.” (GMWC Reply to Staff RPO at 4.)

⁷³ GMWC Reply to Staff RPO at 3-4.

⁷⁴ *Id.* at 5.

1 President of GMWC and are marked as “paid in full.”⁷⁵ GMWC asserted that the proceeds from the
 2 three loans were used to pay McMains and Sons Excavation, Inc. (“McMains”) for extensions of
 3 transmission and distribution mains. GMWC provided copies of draw requests from McMains dated
 4 December 2000, January 2001, and April 2003 (for which the combined water-related portions total
 5 \$27,773.65) and copies of project estimates from McMains dated December 2004 and December
 6 2005 (for which the water-related portions total \$26,365.00 and \$78,655.00, respectively). GMWC
 7 stated that the funds from the 2004 loan were used to extend transmission and distribution mains to
 8 Granite Mountain Homesites Unit V, Phase 1A; that the funds from the 2006 loan were used to
 9 extend transmission and distribution mains and for hydrants in Granite Mountain Homesites Unit V,
 10 Phase 2; and that the funds from the 2007 loan were used to extend transmission and distribution
 11 mains and for hydrants in Granite Mountain Homesites Unit V, Phase 3.⁷⁶

12 98. GMWC states that prior Commission approval for the three loans was not sought
 13 because the loans were provided by the Levie Trust and by bonding for all subdivision
 14 improvements, that the improvements were inadvertently not broken out of the contract with
 15 McMains, and that PD Levie failed to instruct GMWC management to get Commission approval for
 16 the financings.⁷⁷ GMWC states that the promissory notes were prepared and signed “at or near the
 17 time the statements were paid” and that the loans were used strictly for improvements of services to
 18 water customers within GMWC’s service area.⁷⁸ GMWC does not believe that it failed to comply
 19 with Commission orders regarding prior approval of “loans” in regards to the three promissory
 20 notes.⁷⁹ GMWC stated that including the three loans as outstanding on the rate application was an
 21 error, as the three loans were paid off on December 31, 2008, using funds in GMWC’s savings
 22 account that were “generated by both long term savings, interest on the deposit account, and
 23 repayment of loans from associated companies.”⁸⁰

24 99. Staff recommends that no action be taken regarding the three loans because they have

25 ⁷⁵ The three promissory notes are remarkably similar in appearance, all appearing to have been created using the same
 26 template and the same printer, although the dates printed on them are different.

27 ⁷⁶ GMWC RPO at 12.

28 ⁷⁷ *Id.* at 9.

⁷⁸ *Id.* at 10.

⁷⁹ *Id.* at 11.

⁸⁰ *Id.* at 11-12.

1 already been paid in full. Staff explained that the three loans could not be treated as paid-in capital
 2 because there is no outstanding balance left to convert to paid-in capital. Staff believes that GMWC
 3 and the owners were aware that Staff would have recommended conversion of any unpaid balances
 4 on the three loans to paid-in capital and thus paid off the three loans before the end of the TY. Staff
 5 did not recommend any adverse action against GMWC currently, but stated that "Staff does not
 6 condone the repeated disregard for direct Commission Orders" and that sanctions and/or fines may
 7 eventually be appropriate. Staff also stated that it has no reason to dispute GMWC's assertions
 8 regarding how the money from the three loans was used.

9 **Staff Recommendations**

10 100. Staff recommends the following:

- 11 (a) That Staff's recommended rates and charges be approved;
- 12 (b) That GMWC be authorized to collect from its customers a proportionate share
 13 of any privilege, sales, or use tax, as provided for in A.A.C. R14-2-409(D);
- 14 (c) That GMWC be ordered to file with Docket Control, as a compliance item in
 15 this docket, within 30 days after the effective date of the decision in this matter, a tariff schedule of
 16 its new rates and charges;
- 17 (d) That the Commission deny GMWC's financing application;
- 18 (e) That the Commission treat the LOC as an infusion of cash into GMWC by its
 19 owners/shareholders and that the amount of the LOC be included in GMWC's books as paid-in
 20 capital;
- 21 (f) That the Commission take no action regarding the three loans;
- 22 (g) That GMWC be ordered to obtain the Commission's approval for any long-
 23 term financing prior to its execution of any loans in the future;
- 24 (h) That Staff initiate an order to show cause if, in the future, GMWC secures
 25 financing without first obtaining approval from the Commission;
- 26 (i) That if, in the future, GMWC executes any unapproved loans, the loan
 27 amounts be treated as paid-in capital for ratemaking purposes;
- 28 (j) That GMWC be ordered to use, on a going-forward basis, the depreciation

1 rates by individual National Association of Regulatory Utility Commissioners category delineated in
2 Exhibit 6 of the Engineering Report portion of the January 4, 2010, Staff Report in this matter;

3 (k) That GMWC be ordered to continue monitoring its water use data to ensure
4 that water loss remains within acceptable limits;

5 (l) That GMWC be ordered to file with Docket Control, as a compliance item in
6 this docket, within six months of the effective date of the decision in this matter, copies of the
7 Approval of Construction for the new 50,000-gallon storage tank;

8 (m) That GMWC be ordered to do one of the following to address its inadequate
9 storage capacity issue:

10 (i) Drill a replacement well to replace existing Well No. 5 (ADWR #55-
11 622083), or

12 (ii) Construct and install a 110,000-gallon storage tank;

13 (n) That if GMWC constructs and installs a 110,000-gallon storage tank, GMWC
14 be required to:

15 (i) Hire an Arizona registered engineer to design the 110,000-gallon
16 storage tank;

17 (ii) File with Docket Control, as a compliance item in this docket, within
18 six months of the effective date of the decision in this matter, copies of
19 the Approval to Construct for the 110,000-gallon storage tank; and

20 (iii) File with Docket Control, as a compliance item in this docket, within
21 18 months of the effective date of the decision in this matter, copies of
22 the Approval of Construction for the 110,000-gallon storage tank; and

23 (o) That GMWC be required to contact ADWR to correct the discrepancy in the
24 locations of Well No. 3 and Well No. 4.

25 Resolution

26 101. As discussed previously, we are adopting Staff's recommended total revenue
27 requirement and rate of return along with Staff's commodity rate breakover points, but are adopting
28 monthly usage charges and commodity rates that will produce a lower revenue increase than that

recommended by Staff because we are imputing an additional \$10,627.69 to GMWC's TY revenues to account for the water that was provided by GMWC for free and at a discount. In addition, we are requiring that individually assigned hydrant meter customers be assessed a monthly minimum charge, according to meter size, along with the tiered commodity rates for the meter size and are adopting a standpipe rate applicable to hydrant meters that are not individually assigned.

102. Consistent with Staff's recommendations, we are also denying approval of the LOC and the three loans included in the financing application and are requiring GMWC to convert the LOC amount from long-term debt to paid-in capital. We are not authorizing GMWC to issue additional stock at this time and remind GMWC that it is prohibited from issuing additional stock without obtaining prior Commission approval.⁸¹

103. While the imputation of significant TY revenues addresses to some extent the issue of GMWC's failure to properly monitor the meters on its system and its intentional provision of both free and discounted water to its owners' son and of free water for landscaping purposes in its owners' development, we want to make it sufficiently clear to GMWC how very concerned we are about both situations. As a water utility, GMWC is obligated to read each meter on its system every month, on as close to the same day as practical,⁸² and is obligated to bill monthly for services rendered.⁸³ As a public service corporation, GMWC has no authority to provide water for free or at a discounted rate and is authorized to provide service only at the rates and charges authorized under its current tariff on file with the Commission.⁸⁴ GMWC had no authority to enter into a contractual agreement under which it agreed to provide free water and discounted water in return for easement rights. That GMWC has done so, and that Daniel has apparently been receiving free and discounted water for almost nine years, is disturbing, particularly in light of the fact that one of GMWC's owners is a licensed Arizona attorney. GMWC's failure to collect appropriate revenues due to its conscious decision to grant preferential treatment to its owners' family member has done a disservice and

⁸¹ See A.R.S. §§ 40-301(B), 40-302(A).

⁸² A.A.C. R14-2-408(A).

⁸³ A.A.C. R14-2-409(A)(1).

⁸⁴ A.R.S. §§ 40-334, 40-374.

1 injustice to every other customer on GMWC's system during that time period.⁸⁵ We will order
2 GMWC immediately to cease providing water without charge and to cease providing water at a
3 discounted rate and further will order GMWC to provide water only in accordance with the rates and
4 charges specifically authorized by the Commission. We will also require each individual involved in
5 the management and operations of GMWC, both now and in the future, to complete and file with the
6 Commission's Docket Control an attestation acknowledging that the individual has read the statutes
7 pertaining to public service corporations and the rules pertaining to water utilities and that the
8 individual understands that GMWC must read every meter every month, must bill each account on its
9 system for service every month, and must charge for all water provided in accordance with GMWC's
10 tariff on file with the Commission. We will also require GMWC to file another rate application
11 within two years from the effective date of this decision so that the Commission can verify that
12 GMWC has ceased this unauthorized and unlawful practice and is appropriately collecting revenues
13 from every recipient of water from its system.

14 104. In addition, because we are concerned about the ownership of GMWC's wells and the
15 properties on which they are located, we will require GMWC, within 90 days after the effective date
16 of this decision, to file with the Commission's Docket Control documentation establishing the
17 ownership of each well included in GMWC's system; the ownership of each well site for GMWC's
18 system; and that GMWC has the right to access each well and well site for the foreseeable future.
19 We will require Staff, with any assistance and guidance necessary from the Legal Division, to
20 scrutinize this documentation and determine whether GMWC's ownership and rights are sufficient to
21 ensure that GMWC will, for the foreseeable future, have sufficient control over its water supply to
22 ensure that it will be able to serve its customers. We will require Staff to make a filing in this docket
23 regarding its findings and, if appropriate, making recommendations for any actions that should be
24 taken to ensure that GMWC will have sufficient control over its water supply to ensure that it will be
25 able to serve its customers for the foreseeable future.

26
27 ⁸⁵ We also note that, per GMWC, Daniel owns the two properties that have been provided preferential treatment under
28 the Easement Agreement only because PD Levie transferred the properties to Daniel contemporaneously with the creation
of the Easement Agreement. This type of self-dealing can lead to unjustifiably higher rates for every other customer on a
system.

105. GMWC has established a pattern of behavior (repeatedly obtaining financings without prior Commission approval) that suggests either a severe “memory problem” on the part of GMWC’s owners and operators or that GMWC’s owners and operators believe that it is acceptable to disregard Commission statutes, rules, and direct orders. After giving serious consideration to ordering Staff immediately to commence an order to show cause proceeding to address GMWC’s violations of Commission statutes and orders, we have decided instead to give GMWC an opportunity to demonstrate its intent to comply with the law by complying with this Commission decision. We made this decision in part because GMWC is providing its customers with safe drinking water and does not have a history of customer complaints, both of which suggest that GMWC’s owners and operators have the skills necessary to comply with Commission statutes, rules, and direct orders. Because GMWC’s pattern of behavior could be attributable to a lack of knowledge and understanding of the statutes that govern water utilities’ financial transactions, we will also require each individual involved in the management and operations of GMWC, both now and in the future, to complete and file with the Commission’s Docket Control an attestation acknowledging that the individual is aware that GMWC is prohibited from issuing stocks and stock certificates, bonds, notes, or other evidences of indebtedness without first obtaining a Commission order approving such issuance.

106. Staff's recommendations set forth in Findings of Fact No. 100(b) through (n) are just and reasonable and in the public interest, and we are adopting them. In addition, we will require GMWC to make filings regarding approvals for its replacement well, should it choose that option to address its inadequate storage capacity.

CONCLUSIONS OF LAW

1. Granite Mountain is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-281, 40-301, 40-302, 40-303, 40-334, and 40-374.

2. The Commission has jurisdiction over Granite Mountain and the subject matter of the rate application and financing application.

3. Notice of Granite Mountain's rate application and financing application and of this

1 matter was provided in accordance with the law.

2 4. Granite Mountain's FVRB is \$326,014.

3 5. The rates, charges, and conditions of service established herein are just and reasonable
4 and in the public interest.

5 6. It is just and reasonable and in the public interest to deny approval of Granite
6 Mountain's financing application and to require Granite Mountain to convert the outstanding amount
7 of its \$125,000 LOC to paid-in capital.

8 7. It is just and reasonable and in the public interest to require Granite Mountain to
9 comply with the conditions described in Findings of Fact No. 100(b) through (n) and Findings of Fact
10 Nos. 103 through 105 and, further, to make filings regarding the approvals for its replacement well,
11 should it choose that option to address its inadequate storage capacity.

12 ORDER

13 IT IS THEREFORE ORDERED that Granite Mountain Water Company, Inc. is hereby
14 authorized and directed to file with the Commission's Docket Control, as a compliance item in this
15 docket, on or before September 1, 2010, a revised tariff setting forth the following rates and charges:

16 MONTHLY USAGE CHARGE:

17 5/8" x 3/4" Meter (All Classes)	\$ 25.00
18 3/4" Meter (All Classes)	37.50
19 1" Meter (All Classes)	62.50
20 1-1/2" Meter (All Classes)	125.00
21 2" Meter (All Classes)	200.00
22 3" Meter (All Classes)	400.00
4" Meter (All Classes)	625.00
6" Meter (All Classes)	1,250.00
Hydrant Meter (Individually Assigned)	By Meter Size
Standpipe (Not Individually Assigned)	None

23 COMMODITY RATES (Per 1,000 Gallons):

24 (Applicable to All Classes, Except Standpipe)

25 5/8" x 3/4" Meter	
1 to 4,000 Gallons	\$4.40
4,001 to 10,000 Gallons	6.60
26 Over 10,000 Gallons	7.90

27 3/4" Meter

28 1 to 4,000 Gallons	\$4.40
-----------------------	--------

1 4,001 to 10,000 Gallons 6.60
 2 Over 10,000 Gallons 7.90

3 1" Meter

4 1 to 10,000 Gallons \$6.60
 5 Over 10,000 Gallons 7.90

6 1 ½" Meter

7 1 to 20,000 Gallons \$6.60
 8 Over 20,000 Gallons 7.90

9 2" Meter

10 1 to 40,000 Gallons \$6.60
 11 Over 40,000 Gallons 7.90

12 3" Meter

13 1 to 144,000 Gallons \$6.60
 14 Over 144,000 Gallons 7.90

15 4" Meter

16 1 to 225,000 Gallons \$6.60
 17 Over 225,000 Gallons 7.90

18 6" Meter

19 1 to 450,000 Gallons \$6.60
 20 Over 450,000 Gallons 7.90

21 **Standpipe Water (Not Individually Assigned)**

22 All Usage, Per 1,000 Gallons \$7.90

23 **SERVICE LINE & METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-405)

	Service			
	Line	Meter	Total	
	Charge	Charge	Charge	
24 5/8" x ¾" Meter	\$ 405.00	\$ 95.00	\$ 500.00	
25 ¾" Meter	413.00	162.00	575.00	
26 1" Meter	441.00	209.00	650.00	
27 1 ½" Meter	395.00	321.00	716.00	
28 2" Meter	727.00	845.00	1,572.00	
3" Meter	952.00	1,448.00	2,400.00	
4" Meter	1,310.00	2,206.00	3,516.00	
5" Meter	2,160.00	4,756.00	6,916.00	

29 **SERVICE CHARGES:**

30 Establishment \$25.00
 31 Establishment (After Hours) \$35.00
 32 Reconnection (Delinquent) \$35.00

1	Reconnection (Delinquent) (After Hours)	\$45.00
	Meter Test (If Correct)	\$35.00
2	Deposit	*
	Deposit Interest	*
3	Re-Establishment (within 12 mos.)	**
	NSF Check	\$20.00
4	Deferred Payment (per month)	1.00%
5	Meter Re-Read (If Correct)	\$15.00
	Late Fee (per month)	***

6 * Per Commission rule A.A.C. R14-2-403(B).

7 ** Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).

8 *** 1.50 percent of the unpaid balance per month.

9 The Company is authorized to collect from its customers a proportionate share of any privilege, sales, or use tax, as provided for in A.A.C. R14-2-409(D).

10
11 IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for
12 all services rendered by Granite Mountain Water Company, Inc. on and after September 1, 2010.

13 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall notify its
14 customers of the revised schedule of rates and charges authorized herein by means of an insert in its
15 next regularly scheduled billing, or by separate mailing, in a form acceptable to the Commission's
16 Utilities Division Staff.

17 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall use, on a
18 going-forward basis, the depreciation rates by individual National Association of Regulatory Utility
19 Commissioners category delineated in Exhibit 6 of the Engineering Report portion of the January 4,
20 2010, Staff Report in this matter.

21 IT IS FURTHER ORDERED that approval of the four financings described in Granite
22 Mountain Water Company, Inc.'s financing application is hereby denied.

23 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall treat the
24 funds obtained through the \$125,000 line of credit as an infusion of cash into Granite Mountain
25 Water Company, Inc. by its owners/shareholders and shall include the outstanding amount in the
26 books of Granite Mountain Water Company, Inc. as paid-in capital.

27 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall obtain
28 Commission approval before entering into any future financing arrangement (including issuing stock,

1 stock certificates, bonds, notes, or any other evidence of indebtedness) payable at periods of more
2 than 12 months after the date of execution/issuance.

3 IT IS FURTHER ORDERED that if Granite Mountain Water Company, Inc. enters into any
4 future financing arrangement (including issuing stock, stock certificates, bonds, notes, or any other
5 evidence of indebtedness) payable at periods of more than 12 months after the date of
6 execution/issuance without first obtaining Commission approval, both of the following shall occur:

7 a. Staff shall initiate an order to show cause proceeding against Granite Mountain Water
8 Company, Inc.; and

9 b. The amount obtained by Granite Mountain Water Company, Inc. through any
10 unapproved financing shall be treated as paid-in capital for ratemaking purposes.

11 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall monitor its
12 water use data to ensure that its water loss does not exceed 10 percent.

13 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall file with the
14 Commission's Docket Control, within six months after the effective date of this decision, as a
15 compliance item in this docket, copies of the Approval of Construction for the new 50,000-gallon
16 storage tank.

17 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall complete one
18 of the following, within 18 months after the effective date of this decision, to address its inadequate
19 storage capacity issue:

20 a. Drill a replacement well to replace its existing Well No. 5 (ADWR #55-622083), or

21 b. Construct and install a 110,000-gallon storage tank.

22 IT IS FURTHER ORDERED that if Granite Mountain Water Company, Inc. chooses to
23 address its inadequate storage capacity issue by constructing and installing a 110,000-gallon storage
24 tank, Granite Mountain Water Company, Inc. shall:

25 a. Hire an Arizona registered engineer to design the 110,000-gallon storage tank;

26 b. File with the Commission's Docket Control, within six months after the effective date
27 of this decision, as a compliance item in this docket, copies of the Approval to Construct for the
28 110,000-gallon storage tank; and

1 c. File with the Commission's Docket Control, within 18 months after the effective date
2 of this decision, as a compliance item in this docket, copies of the Approval of Construction for the
3 110,000-gallon storage tank.

4 IT IS FURTHER ORDERED that if Granite Mountain Water Company, Inc. chooses to
5 address its inadequate storage capacity issue by drilling a replacement well to replace its existing
6 Well No. 5 (ADWR #55-622083), Granite Mountain Water Company, Inc. shall:

7 a. File with the Commission's Docket Control, within six months after the effective date
8 of this decision, as a compliance item in this docket, copies of the Approval to Construct for the
9 replacement well; and

10 b. File with the Commission's Docket Control, within 18 months after the effective date
11 of this decision, as a compliance item in this docket, copies of the Approval of Construction for the
12 replacement well.

13 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall immediately
14 cease providing water without charge and shall immediately cease providing water at a discounted
15 rate.

16 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall provide water
17 only in accordance with the rates and charges that have been specifically authorized by the
18 Commission.

19 IT IS FURTHER ORDERED that each individual involved in the management and operations
20 of Granite Mountain Water Company, Inc., both now and in the future, shall complete and file with
21 the Commission's Docket Control, as a compliance item in this docket, within 30 days after the
22 effective date of this decision or within 30 days after becoming involved in the management and
23 operations of Granite Mountain Water Company, Inc., as applicable, a signed and dated attestation
24 made using Exhibit A hereto, which is incorporated by reference herein.

25 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall, within two
26 years after the effective date of this decision, file with the Commission's Docket Control a permanent
27 rate case application.

28 IT IS FURTHER ORDERED that Commission Staff shall, in reviewing Granite Mountain

1 Water Company, Inc.'s permanent rate case application, scrutinize Granite Mountain Water
2 Company, Inc.'s records to determine whether Granite Mountain Water Company, Inc. has ceased
3 providing free and discounted water and is appropriately collecting revenues from every recipient of
4 water from its system.

5 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall, within 90
6 days after the effective date of this decision, file with the Commission's Docket Control, as a
7 compliance item in this docket, documentation establishing the ownership of each well included in its
8 water system, the ownership of each well site in its water system, and that Granite Mountain Water
9 Company, Inc. has the right to access each well and well site in its system for the foreseeable future.

10 IT IS FURTHER ORDERED that Commission Staff shall:

11 a. Thoroughly scrutinize the documentation filed by Granite Mountain Water Company,
12 Inc. as to well and well site ownership and access;

13 b. Determine whether Granite Mountain Water Company, Inc.'s ownership and access
14 rights are sufficient to ensure that Granite Mountain Water Company, Inc. will, for the foreseeable
15 future, have sufficient control over its water supply to ensure that it will be able to serve its
16 customers; and

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...





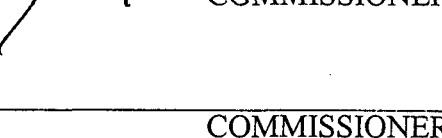
27 ...

28 ...

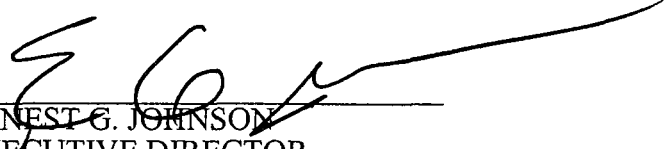
c. File with the Commission's Docket Control, in this docket, a memorandum explaining Staff's determination and, if appropriate, making recommendations for any action that should be taken to ensure that Granite Mountain Water Company, Inc. will have sufficient control over its water supply to ensure that it will be able to serve its customers for the foreseeable future.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

		
CHAIRMAN	COMMISSIONER	
		
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 31st day of August, 2010.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT 

DISSENT _____

1 SERVICE LIST FOR:

GRANITE MOUNTAIN WATER COMPANY, INC.

2 DOCKET NOS.:

W-02467A-09-0333 and W-02467A-09-0334

3
4 Paul D. Levie
5 GRANITE MOUNTAIN WATER COMPANY, INC.
6 2465 West Shane Drive
7 Prescott, AZ 86305
8 Attorney for Granite Mountain Water Company, Inc.

9 Matthew Lauterbach, Chief Operating Officer
10 GRANITE MOUNTAIN WATER COMPANY, INC.
11 2465 West Shane Drive
12 Prescott, AZ 86305

13 Gary Fujinami
14 PO Box 12616
15 7280 Racetrack Road
16 Prescott, AZ 86304

17 Janice Alward, Chief Counsel
18 Legal Division
19 ARIZONA CORPORATION COMMISSION
20 1200 W. Washington Street
21 Phoenix, AZ 85007

22 Steve Olea, Director
23 Utilities Division
24 ARIZONA CORPORATION COMMISSION
25 1200 W. Washington Street
26 Phoenix, AZ 85007
27
28

EXHIBIT A

ATTESTATION

First and Last Name: _____ Title: _____

First day involved in management/operations of GMWC: _____

I hereby attest, under oath or affirmation:

1. That I have read the Arizona statutes pertaining to public service corporations (Arizona Revised Statutes, Title 40, Chapter 2);
2. That I have read the Arizona Corporation Commission rules pertaining to water utilities (Arizona Administrative Code Title 14, Chapter 2, Article 4);
3. That I understand that Granite Mountain Water Company, Inc. ("GMWC") must read each meter on its water system every month and must bill each account on its water system for service every month;
4. That I understand that GMWC must charge for all water provided on its system in accordance with GMWC's tariff on file with the Commission; and
5. That I understand that GMWC is prohibited from issuing stocks and stock certificates, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date of execution/issuance without first obtaining a Commission order approving such issuance.

Signature: _____ Date: _____

State of Arizona

County of _____

Subscribed and sworn (or affirmed) before me this _____ day of _____, 20_____.

(seal)

Notary Public

COMMISSIONERS
KRISTIN K. MAYES - Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP



SANDRA D. KENNEDY
COMMISSIONER

ARIZONA CORPORATION COMMISSION

Direct Line (602) 542-3625
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E-mail: skennedy@azcc.gov

2010 SEP -9 P 3:48

September 8, 2010

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
Docket Control
Phoenix, AZ

RE: DISSENT
GRANITE MOUNTAIN WATER COMPANY
W-02467A-09-0333 AND W-02467A-09-0334

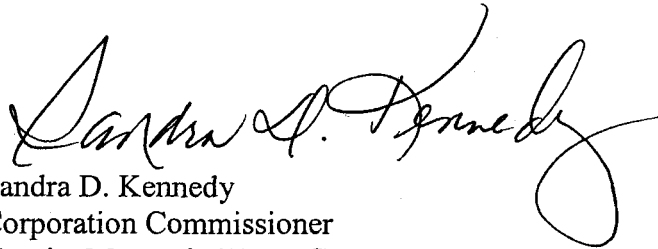
I am entering into the docket this letter explaining my No vote on August 24 on the Granite Mountain Water Company rates/finance application.

In reading the Recommended Order and Opinion and listening to the testimony at the Open Meeting, the Company's lack of adherence to previous Commission orders and the gifting of water disturbed me.

I normally have given small water companies the benefit of the doubt as they navigate the Commission's process, understanding that at times these small water companies may lack technical and legal staff. However, I believe the record in this case showed that this was not the case and the company for whatever reason repeatedly ignored previous Commission orders that specified that the company seek Commission approval before entering into any finance agreements.

My other concern is that during the test year 329,610 gallons of water were given away. While I understand some adjustments were made to compensate for the lost revenue, it is unfair for the ratepayers to receive a rate increase while others have had free water for a number of years.

I know that the recommended order and opinion that was approved includes provisions requiring strict compliance with Commission Rules. However, given the company's past behavior I am not confident Granite Mountain will comply. It is for these reasons I voted No.

A handwritten signature in black ink, reading "Sandra D. Kennedy". The signature is fluid and cursive, with a large loop at the end of the last name.

Sandra D. Kennedy
Corporation Commissioner
Granite Mountain Water Company
W-02467A-09-0333 and W-02467A-09-0334